

A Pension From Work Not Covered By Social Security

How It Affects Your Social Security Retirement Or Disability Benefits

If you work for an employer who doesn't withhold Social Security taxes, such as a government agency or an employer in another country, the pension you get based on that work may reduce your Social Security benefits.

Your benefit can be reduced in one of two ways. One is called the "government pension offset," and applies only if you receive a government pension and are eligible for Social Security benefits as a spouse or widow(er). For more information on the offset, ask Social Security for the factsheet, *Government Pension Offset* (Publication No. 05-10007).

The other way—called the "windfall elimination provision"—affects how your retirement or disability benefits are figured if you receive a pension from work not covered by Social Security. The formula used to figure your benefit amount is modified, giving you a lower Social Security benefit. This factsheet explains the computation formula.

Who Is Affected?

This provision primarily affects people who earned a pension from working for a government agency, and also worked at other jobs where they paid Social Security taxes long enough to qualify for retirement or disability benefits. It also may affect you if you earned a pension in any job where you didn't pay Social Security taxes, such as in a foreign country.

The modified formula applies to you if you reach 62 or become disabled after 1985 and first become eligible after 1985 for a monthly pension based in whole or in part on work where you did not pay Social Security taxes. You are considered eligible to receive a pension if you meet the requirements of the pension, even if you continue to work.

The modified formula is used to figure your Social Security benefit beginning with the first month you get both a Social Security benefit and the other pension.

Why Is A Different Formula Used?

Social Security benefits replace a percentage of a worker's pre-retirement earnings. The formula used to compute benefits includes factors that ensure lower-paid workers get a higher return than highly paid workers. For example, lower-paid workers could get a Social Security benefit that equals about 60 percent of their pre-retirement earnings. The average replacement rate for highly paid workers is about 25 percent.

Before 1983, benefits for people who spent time in jobs not covered by Social Security were computed as if they were long-term, low-wage workers. They received the advantage of the higher percentage benefits in addition to their other pension. The modified formula eliminates this windfall.

How Does It Work?

Social Security benefits are based on the worker's average monthly earnings adjusted for inflation. When we figure your benefits, we separate your average earnings into three amounts and multiply the amounts using three different factors. For example, for a worker who turns 62 in 1998, the first \$477 of average monthly earnings is multiplied by 90 percent; the next \$2,398 is multiplied by 32 percent; and the remainder by 15 percent.

The 90 percent factor is reduced in the modified formula and phased in for workers who reached age 62 or became disabled between 1986 and 1989. For those who reach 62 or become disabled in 1990 or later, **the 90 percent factor is reduced to 40 percent.**

There are exceptions to this rule. For example, the 90 percent factor is **not** reduced if you have 30 or more years of "substantial" earnings in a job where you paid Social Security taxes. The first table on the back lists the amount of earnings we consider "substantial" for each year.

If you have 21 to 29 years of substantial earnings, the 90 percent factor is reduced to somewhere between 45 and 85 percent. The second table shows the percentage used depending on the number of years of "substantial" earnings.

Year	Substantial Earnings
1937-50	\$ 900 ¹
1951-54	900
1955-58	1,050
1959-65	1,200
1966-67	1,650
1968-71	1,950
1972	2,250
1973	2,700
1974	3,300
1975	3,525
1976	3,825
1977	4,125
1978	4,425
1979	4,725
1980	5,100
1981	5,550
1982	6,075
1983	6,675
1984	7,050
1985	7,425
1986	7,875
1987	8,175
1988	8,400
1989	8,925
1990	9,525
1991	9,900
1992	10,350
1993	10,725
1994	11,250
1995	11,325
1996	11,625
1997	12,150
1998	12,675

¹Total credited earnings from 1937-50 are divided by \$900 to get the number of years of coverage (maximum of 14 years).

Years of Substantial Earnings	Percentage
30 or more	90 percent
29	85 percent
28	80 percent
27	75 percent
26	70 percent
25	65 percent
24	60 percent
23	55 percent
22	50 percent
21	45 percent
20 or less	40 percent

Some Exceptions

The modified formula does not apply to survivors benefits. It also does not apply to you if:

- you are a federal worker hired after December 31, 1983;
- you were employed on December 31, 1983, by a nonprofit organization that was exempt from Social Security and it became mandatorily covered under Social Security on that date;
- your only pension is based on railroad employment;
- your only work where you did not pay Social Security taxes was before 1957; or
- you have 30 or more years of substantial earnings under Social Security (as explained earlier).

Guarantee

Workers with relatively low pensions are protected because the reduction in the Social Security benefit under the modified formula cannot be more than one-half of that part of the pension attributable to earnings after 1956 not covered by Social Security.

For More Information

You can get recorded information 24 hours a day, including weekends and holidays, by calling Social Security's toll-free number, **1-800-772-1213**. You can speak to a service representative between the hours of 7 a.m. and 7 p.m. on business days. Our lines are busiest early in the week and early in the month, so, if your business can wait, it's best to call at other times. Whenever you call, have your Social Security number handy.

People who are deaf or hard of hearing may call our toll-free "TTY" number, 1-800-325-0778, between 7 a.m. and 7 p.m. on business days.

You also can reach us on the Internet. Type <http://www.ssa.gov> to access Social Security information.

The Social Security Administration treats all calls confidentially—whether they're made to our toll-free numbers or to one of our local offices. We also want to ensure that you receive accurate and courteous service. That's why we have a second Social Security representative monitor some incoming and outgoing telephone calls.

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